

## Message Text

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CINCEUR FOR POLAD

E.O. 11652: GDS  
TAGS: AMGT PFOR EG  
SUBJECT: PARM--ANNUAL POLICY AND RESOURCE ASSESSMENT - PART I

REF: (A) CERP 0001 (B) STATE 47671

SUBMITTED BELOW IS PART I OF PARM FOR EGYPT. PARTS II AND III  
WILL BE SENT BY SEPTEL.

A. US INTERESTS

THE PRINCIPAL LONG TERM INTERESTS OF THE US IN EGYPT DERIVE  
FROM EGYPT'S POSITION AS THE MAJOR ARAB POLITICAL AND MILITARY  
POWER AND ITS STRATEGIC LOCATION AT CROSSROADS OF THE MIDDLE EAST  
AND AFRICA AND THE MEDITERRANEAN AND INDIAN OCEAN. EGYPT IS A  
CRITICAL FACTOR FOR WAR OR PEACE IN THE MIDDLE EAST. WHILE  
EGYPT'S DOMINANT ROLE IN ARAB POLITICS HAD DIMINISHED IN RELATIVE  
TERMS AS THE OIL RICH STATES GAIN IN POWER AND SELF-CONFIDENCE,  
IT REMAINS BY VIRTUE OF ITS POPULATION AND LOCATION A CRUCIAL  
FACTOR (1) FOR STABILITY OR INSTABILITY IN THE MIDDLE EAST IN  
GENERAL AND FREE WORLD ACCESS TO OIL IN THE ARABIAN PENINSULA  
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IN PARTICULAR; (2) IN SUPPORT OF US EFFORTS TO BRING ABOUT A  
SETTLEMENT OF THE ARAB-ISRAELI CONFLICT; AND (3) AS AN INFLUENTIAL  
LEADER IN ARAB, AFRICAN, THIRD WORLD AND UN FORA ON A  
WIDE VARIETY OF GLOBAL NORTH-SOUTH ECONOMIC ISSUES: DISARMAMENT,  
HUMAN RIGHTS, NUCLEAR NONPROLIFERATION AND LAW OF THE SEA.  
ADDITIONALLY, AS THE REGION'S MOST POPULOUS STATE, EGYPT IS A  
POTENTIALLY IMPORTANT MARKET FOR US GOODS, SERVICES AND INVESTMENTS.

FINALLY, WE HAVE AN INTEREST IN THE CONTINUED SUCCESS OF THE AMERICAN UNIVERSITY AT CAIRO OFFERING AMERICAN-TYPE ACADEMIC EDUCATION TO THE YOUTH OF THE AREA.

B. OVERVIEW.

1. THE ENVIRONMENT IN WHICH WE PURSUE OUR BILATERAL AND MULTILATERAL INTERESTS IN EGYPT WILL BE DETERMINED IN THE NEXT YEAR OR TWO PRIMARILY BY THE PROGRESS MADE TOWARD A SETTLEMENT OF THE ARAB-ISRAELI CONFLICT, EGYPT'S OVERRIDING FOREIGN POLICY OBJECTIVE. IF CONCRETE PROGRESS IS MADE, AND NOT JUST THE APPEARANCE OF PROGRESS, THE STABILITY OF THE SADAT REGIME WILL ALMOST CERTAINLY BE ENHANCED; THE AMERICAN-EGYPTIAN RELATIONSHIP SHOULD GROW CLOSER AND MORE EFFECTIVE AND THE PROSPECTS FOR EGYPT'S ECONOMY SHOULD IMPROVE. SUCH POSITIVE DEVELOPMENT COULD HAVE AREAWIDE REPERCUSSIONS FOR ENSURING ACCESS TO ARAB OIL SUPPLIES, LIMITING THE EXTENT OF SOVIET INFLUENCE, AND INCREASING SUPPORT FOR THE ACCEPTANCE OF ISRAEL. IN THIS EVENT, THE US STAKE IN EGYPT SHOULD STEADILY GROW BOTH TO CONSOLIDATE PROGRESS ALREADY MADE AND PROMOTE THE NEXT STAGES OF THE PEACE PROCESS, AND TO EXPAND THE OPPORTUNITIES THAT A "SPECIAL RELATIONSHIP" WITH THE AREA'S MOST POLITICALLY INFLUENTIAL STATE WILL BRING. TO BENEFIT FROM THIS "BEST CASE" ENVIRONMENT USG RESOURCES DEVOTED TO EGYPT BOTH IN CAIRO AND IN WASHINGTON WOULD HAVE TO REMAIN HIGH. AT A MINIMUM, US ECONOMIC ASSISTANCE LEVELS WOULD REMAIN CONSTANT AT APPROXIMATELY \$1 BILLION A YEAR FOR THE NEXT FEW YEARS.

2. IF, ON THE OTHER HAND, NO SIGNIFICANT PROGRESS TOWARD PEACE TAKES PLACE WITHIN THE NEXT YEAR OR TWO, AND THE ECONOMY DOES NOT

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IMPROVE, POLITICAL INSTABILITY INSIDE EGYPT IS INEVITABLE. IT WILL BE FAR MORE DIFFICULT, WITHOUT PEACE, TO MOVE THE ECONOMY FROM THE WAR FOOTING OF THE PAST 30 YEARS AND CONCENTRATE ON REDUCING ECONOMIC PROBLEMS. SADAT'S LEADERSHIP, ALREADY TARNISHED BY THE JANUARY 1977 FOOD RIOTS, WOULD BE EXPECTED TO BE GRADUALLY ERODED. THE REPLACEMENT OF SADAT BY A RADICAL REGIME, WHICH IS JUDGED MOST LIKELY WERE HE TO BE FORCIBLY OVERTHROWN, OR EVEN A SIGNIFICANT WEAKENING OF HIS POSITION WOULD ALMOST CERTAINLY HAVE GRAVE IMPLICATIONS FOR THE FUTURE OF THE PEACE PROCESS AND STABILITY WITHIN THE ARAB WORLD, INCLUDING RELIABILITY OF OIL SUPPLIES. (SAUDI ARABIA IN PARTICULAR FEARS THE RETURN OF A NASSER-TYPE REGIME IN EGYPT AND, IF SADAT FALLS, IT WILL BE PRECISELY BECAUSE HIS PRAGMATIC AND MODERATE ECONOMIC/POLITICAL POLICIES HAVE BEEN JUDGED TO BE INEFFECTIVE IN FURTHERING EGYPT'S INTERESTS). IF, HOWEVER, SADAT WERE TO DISAPPEAR THROUGH NATURAL CAUSES DURING THE NEXT YEAR OR TWO, WE THINK CHANGES ARE BETTER THAN EVEN THAT HE WOULD BE REPLACED BY A LIKE-MINDED, IF LESS STRONG, REGIME.

3. IN "WORST CASE" ENVIRONMENT, THE LIKELIHOOD OF A FIFTH WAR BETWEEN ISRAEL AND THE ARAB STATES WOULD BE CONSIDERABLY INCREASED WITHIN TWO TO THREE YEARS. THE US ROLE IN EGYPT WOULD VERY LIKELY DIMINISH, PERHAPS ABRUPTLY THROUGH A VIOLENT CHANGE IN REGIMES. OUR INFLUENCE IN EGYPT AND OVER ITS ACTIONS AFFECTING OUR INTERESTS IN THE MIDDLE EAST AND WORLD-WIDE WOULD BE SHARPLY CURTAILED, THE PROSPECTS FOR COOPERATION ON MULTILATERAL ISSUES COULD DISAPPEAR AND THE AID PROGRAM MIGHT HAVE TO BE WITHDRAWN.

4. OBVIOUSLY, A LIKELY POSSIBILITY WOULD BE A SITUATION BETWEEN THESE "BEST" AND "WORST" CASES, AN ENVIRONMENT IN WHICH PROGRESS IS MADE IN THE PEACE PROCESS ADEQUATELY TO KEEP PEOPLE AT IT, BUT INADEQUATELY REALLY TO SATISFY ANY OF THE PARTIES--A SITUATION WHERE EGYPT MIGHT WELL CONTINUE TO PLUG AT PEACE EFFORTS, BUT WHERE THE MILITARY BURDEN WOULD NOT LIKELY DECREASE AND PERMIT DIVERSION OF RESOURCES TO DEVELOPMENT. IN THIS EVENT, CONFIDENTIAL

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US SUPPORT WOULD CONTINUE TO BE CRUCIAL FOR EGYPT AND THE AMOUNT OF US RESOURCES REQUIRED WOULD BE SIMILAR TO THE "BEST" CASE.

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5. THUS, WHILE EGYPT AND SADAT ARE BY NO MEANS THE ONLY

PLAYERS IN THE PEACE PROCESS, THE SUCCESS OR FAILURE OF OUR POLICY TO BRING ABOUT AN ARAB-ISRAELI SETTLEMENT WILL, IN MY OPINION, DETERMINE BOTH THE FUTURE SECURITY OF ISRAEL AND THE AMERICAN ROLE IN THE AREA. A COMPARISON OF THE MIDDLE EAST OF 1970 (WHEN EGYPT WAS STILL UNDER NASSER AND SUPPORTED BY THE SOVIET UNION) AND THE MIDDLE EAST OF 1977 SUGGESTS THAT SADAT'S ROLE WAS CRUCIAL IN THE CHANGES THAT OCCURED. IT WAS SADAT WHO ELIMATED THE SOVIET PRESENCE FROM EGYPT AND THE SUDAN AND THEREBY CONTRIBUTED TO THE DIMINUTION OF ITS ROLE ELSEWHERE. WHILE SADAT WAS NOT NECESSARILY THE SOLE ELEMENT IN THE MARKED EXPANSION OF THE US PRESENCE THROUGHOUT THE AREA DURING THE SAME PERIOD, HIS NEW RELATIONSHIP WITH US CLEARLY INCREASED US "ACCEPTABILITY", EVEN IN PLACES LIKE IRAQ AND ALGERIA. THE ACHIEVEMENT OF OUR PRIMARY AREA OBJECTIVE OF A PEACE SETTLMENT WILL BE THE BEST GUARANTOR THAT THE ENORMOUS US STAKE IN EGYPT AND THE MIDDLE EAST WILL BE PROTECTED AND THAT OUR OTHER MAJOR OBJECTIVES WILL BE PROMOTED. THE FAILURE OF THIS OBJECTIVE WOULD, I AM CONVINCED, THREATEN WITHIN A FEW YEARS BOTH THE SECURITY OF ISRAEL AND ACCESS TO OIL AS WELL AS RAISE AGAIN THE SPECTER OF GREAT POWER CONFRONTATION. IT IS ALSO CONFIDENTIAL

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DOUBTFUL IF THE EMERGING EGYPTIAN-SAUDI ENTENTE FOR ANTI-SOVIET ACTIVITIES IN AFRICA COULD SURVIVE A COLLAPSE OF MIDDLE EAST PEACE EFFORTS.

#### C. OBJECTIVES, COURSES OF ACTION AND ISSUES.

##### 1. KEY BILATERAL OBJECTIVE.

OUR KEY BILATERAL OBJECTIVE IS TO SUPPORT THE CONTINUATION OF PRESIDENT SADAT'S MODERATE REGIME (OR A LIKE-MINDED SUCCESSOR REGIME) IN THE SEARCH FOR A PEACEFUL SETTLEMENT OF THE ARAB-ISRAELI CONFLICT. IN SUPPORT OF THIS OBJECTIVE THE US SHOULD CONTINUE TO CONTRIBUTE DIRECTLY TO THE STABILITY OF EGYPT THROUGH POLITICAL, ECONOMIC AND, IF POSSIBLE, MILITARY PROGRAMS AND SHOULD ENCOURAGE OTHER FRIENDLY STATES TO DO LIKEWISE. THE FOLLOWING PROGRAMS ARE PROPOSED:

##### (A) POLITICAL COURSES OF ACTION.

ISSUES AND DISCUSSION. PRESIDENT SADAT'S DECISION TO SEEK A PEACEFUL SETTLEMENT WITH ISRAEL REPRESENTS ONE OF THE MOST POSITIVE CHANGS IN ARAB-ISRAELI RELATIONS IN 28 YEARS. US PROGRAMS TOWARD EGYPT SHOULD BE GIVEN THE HIGHEST PRIORITY WITHIN THE US GOVERNMENT AS LONG AS THE SEARCH FOR PEACE REMAINS SADAT'S PRINCIPAL OBJECTIVE. AT THE SAME TIME, WE MUST RECOGNIZE ISRAEL'S LEGITIMATE CONCERNS ABOUT THE MILITARY CAPABILITY OF THE ARAB STATES AND THEIR ULTIMATE INTENTIONS. THE ISRAELIS ARE JUSTIFIED IN QUESTIONING WHETHER AGREEMENTS REACHED WITH ARAB REGIMES WILL BE RSPECTED BY SUCCESSOR REGIMES. PROPOSED COURSES OF ACTION:

(A) ENCOURAGE SADAT TO TAKE FURTHER ACTIONS TO ESTABLISH ISRAELI CONFIDENCE IN HIS AND EGYPT'S COMMITMENT TO PEACE, INCLUDING EASING OF THE ARAB BOYCOTT, FURTHER REDUCTION OF HOSTILE PROPAGANDA AND EXPANDED OFFICIAL AND UNOFFICIAL CONTACTS BETWEEN EGYPT AND ISRAEL.

(2) PROCEED IN CLOSE CONSULTATIONS WITH SADAT ON THE PEACE PROCESS. HE CONSIDERS EGYPT THE PARTNER OF THE US IN CONFIDENTIAL

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THE SEARCH FOR PEACE AND PLACES GREAT STOCK IN BEING CONSULTED AND TREATED AS THE PARAMOUNT ARAB LEADER. THE SECRETARY'S FEBRUARY VISIT TO CAIRO AND SADAT'S APRIL VISIT TO WASHINGTON ARE ALREADY SETTING THE PATTERN THAT SHOULD BE FOLLOWED. IT IS IMPORTANT THAT SADAT NOT THINK WE TAKE HIM FOR GRANTED.

(B) ECONOMIC PROGRAMS.  
ISSUES AND DISCUSSION. SADAT'S INABILITY TO DATE TO FULFILL EGYPT'S UNREALISTICALLY HIGH EXPECTATIONS, UNDERTAKE AN EFFECTIVE POPULATION CONTROL PROGRAM, CURB INFLATION, PROVIDE JOBS AND HOUSING AND PRODUCE EVIDENCE OF FORWARD MOTION IN DEALING WITH THE COUNTRY'S PROBLEMS NOT SURPRISINGLY HAS RESULTED IN GROWING DISCONTENT AMONG ALL BUT THE MINISCULE WEALTHY CLASS. THE FRUSTRATIONS OF EGYPT'S URBAN POOR AND MIDDLE CLASSES BOILED OVER INTO PUBLIC DEMONSTRATIONS IN SEPTEMBER 1976 AND, MUCH MORE SERIOUSLY, IN JANUARY 1977. WHILE AGREEMENT WITH THE IMF MAY BRING IN NEW ECONOMIC ASSISTANCE, THERE ARE RELATIVELY FEW SIGNS THAT THE GOVERNMENT, GIVEN THE ENORMOUS HANDICAPS UNDER WHICH IT LABORS, IS CAPABLE OF TAKING THE REQUIRED ACTIONS TO REFORM THE DECISION-MAKING PROCESS, REDUCE CORRUPTION, INEFFICIENCY AND MISMANAGEMENT, AND ATTRACT NEEDED PRIVATE FOREIGN AND DOMESTIC CAPITAL INTO PRODUCTIVE INVESTMENTS, AND THE NUMEROUS OTHER THINGS THAT MUST BE DEALT WITH. YET, THE BASIC JOB OF ECONOMIC REFORM AND PROGRESS MUST BE DONE BY EGYPTIANS THEMSELVES. THE US ROLE CAN ONLY BE CONTRIBUTORY. IT IS ESSENTIAL, HOWEVER, THAT IT BE EMPLOYED IN THE MOST EFFECTIVE MANNER POSSIBLE; I.E. IN A WAY THAT NOT ONLY STRENGTHENS SADAT POLITICALLY, BUT ASSISTS IN LONG TERM ECONOMIC DEVELOPMENT. THE FOLLOWING ARE PROPOSED COURSES OF ACTION TO MEET THESE TWO SOMETIME DIVERGENT OBJECTIVES:

(1) CONTINUE THE HIGH LEVEL OF ECONOMIC ASSISTANCE OF APPROXIMATELY DOLLARS ONE BILLION PER YEAR AS AN EXPRESSION OF SUPPORT FOR SADAT. THIS WILL NECESSARILY INCLUDE A SUBSTANTIAL LEVEL OF BALANCE OF PAYMENTS SUPPORT THROUGH PL 480 FOOD IMPORTS AND THE AID COMMODITY IMPORT PROGRAM. FOR THOSE PROGRAMS WHICH CONFIDENTIAL

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RELATE TO MORE BASIC DEVELOPMENT PROBLEMS RATHER THAN DIRECTLY TO BE BALANCE OF PAYMENTS, EFFORTS SHOULD BE MADE TO ASSURE THAT THEY ARE DESIGNED AND IMPLEMENTED IN THE MOST RAPID MANNER POSSIBLE AND THAT THEY BE EXAMINED IN TERMS OF THEIR POLITICAL IMPACT AS WELL AS THEIR ECONOMIC FUNCTION.((ASTERISK)) FOOTNOTE. (THERE IS A DIFFERENCE OF OPINION WITHIN THE EMBASSY ON HOW THAT POLITICAL INTENTION IS BEST CARRIED OUT. SOME FEEL THAT THE ECONOMIC SITUATION IS CURRENTLY SO GRAVE THAT THE SURVIVAL OF THE SADAT REGIME IS THREATENED AND THAT THIS MEANS THAT FOR THE NEXT YEAR OR TWO THE MAXIMUM POSSIBLE PROPORTION OF ASSISTANCE SHOULD BE DEVOTED TO IMMEDIATE BALANCE OF PAYMENTS AID WITH A POLITICAL IMPACT; OTHERS ARGUE THAT CONCENTRATION ON SHORT TERM SUPPORT ENABLES THE GOE TO AVOID HARD ECONOMIC DECISIONS AND CREATES A FORM OF PERMANENT DEPENDENCE ON THIS KIND OF US AID AND SERVES TO MAKE EVEN MORE INTRACTIBLE THE PROBLEMS THAT ULTIMATELY MUST BE DEALT WITH. SOME ARGUE THAT THE PROBLEM OF EGYPT IS OVER-CONSUMPTION WHICH IS FED BY BALANCE OF PAYMENTS AID AND THAT THE ONLY WAY TO STIMULATE GROWTH IS TO DEVOTE A MAXIMUM AMOUNT OF ASSISTANCE TO LONGER TERM, MORE BASIC DEVELOPMENT PROGRAMS; BUT EVEN THE MOST ARDENT HOLDERS OF THIS VIEW RECOGNIAE THAT THE LONG TERM

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GESTATION PERIOD OF MOST SUCH PROGRAMS WEAKENS THEIR SHORT TERM POLITICAL EFFECT. SOME ADVOCATE THE NEED FOR IMMEDIATELY VISIBLE ACTIVITIES, USING THE CIP PROGRAM PRIMARILY AS AN INSTRUMENT TO DEMONSTRATE PROMPTLY TO THE EGYPTIAN POPULATION SOME DIRECT

PHYSICAL IMPACT ON BETTERING THEIR LIVES THROUGH PROVISION OF BUSES, BETTER RIVER TRANSPORT FACILITIES, IMPROVED LOW COST HOUSING, TECHNOLOGICALLY ADVANCED EQUIPMENT AND THE LIKE; BUT WE HAVE ALREADY EXPERIENCED SUBSTANTIAL DELAYS IN EXPENDING CIP FUNDS WHEN WE HAVE SOUGHT TO DEVOTE LARGE AMOUNTS TO SUCH CAPITAL GOODS. ALL THIS SUGGESTS THAT THERE IS NEED CONSTANTLY TO RE-EVALUATE US AID PROGRAMS IN ORDER TO ASSURE THAT THEY DO IN FACT SHIFT AND CHANGE IN WAYS WHICH RESPOND TO CHANGING NEEDS IN THE MOST EFFECTIVE MIX POSSIBLE. THE MARCH 1977 AGREEMENT TO DEVOTE \$440 MILLION OF THE FY 77 PROGRAM TO CIP PROGRAM WAS A STEP WHICH DRAMATICALLY DEMONSTRATED OUR CAPACITY TO MAKE RAPID ADJUSTMENTS TO MEET CHANGING NEEDS.)

(2) ENCOURAGE OTHER KEY DONORS--BOTH THE TRADITIONAL DONOR GROUPS AND THE NEW OIL-RICH DONORS--TO EXPAND THEIR ECONOMIC ASSISTANCE. ALSO, ENCOURAGE THEM TO IMPROVE THE QUALITY OF THEIR CONTRIBUTIONS THROUGH IMPROVED COORDINATION, CONFIDENTIAL

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BROADER JOINT PLANNING AND THE LIKE, BOTH THROUGH THE IBRD CONSULTATIVE GROUP AND THROUGH DIRECT CONTACTS.

(3) SEEK TO BETTER IDENTIFY CRITICAL PHYSICAL AND INSTITUTIONAL BOTTLENECKS TO EGYPT'S ECONOMIC DEVELOPMENT AND DEVOTE AS MUCH OF OUR CAPITAL AND TECHNICAL ASSISTANCE AS POSSIBLE TO OVERCOMING BOTTLENECKS SUCH AS PORT PROBLEMS, COMMUNICATIONS AND TRANSPORT REQUIREMENTS, POWER REQUIREMENTS, AGRICULTURAL PRODUCTION PROBLEMS AND THE LIKE WHICH CAN HELP MAKE MORE EFFECTIVE THE USE OF EGYPT'S AND OTHER DONOR ASSISTANCE RESOURCES.

(4) ENCOURAGE GREATER PARTICIPATION OF THE PRIVATE SECTOR IN EGYPTIAN DEVELOPMENT BY CHANNELLING RESOURCES THROUGH DEVELOPMENT BANKS AND OTHER INSTITUTIONS WHICH PROVIDE CAPITAL AND SERVICES TO THE PRIVATE SECTOR; BY ASSISTING IN FEASIBILITY STUDIES WHICH CAN HELP TO BRING ABOUT GREATER PRIVATE SECTOR INVESTMENT; AND BY DIRECT ASSISTANCE TO CAPITAL PROJECTS IN WHICH US PRIVATE EQUITY IS INVOLVED.

(5) CONTINUE TO ENCOURAGE THE EGYPTIAN GOVERNMENT TO TAKE NECESSARY STEPS TO IMPLEMENT PLANNED ECONOMIC AND ADMINISTRATIVE REFORMS, ALWAYS TAKING INTO ACCOUNT THE SHORT TERM POLITICAL IMPLICATIONS OF SUCH REFORMS. IN THIS VEIN, THERE IS NEED TO WORK MORE CLOSELY WITH IBRD AND IMF, THROUGH THE CONSULTATIVE GROUP AND DIRECTLY WITH OTHER DONORS, IN BETTER ASSESSING HOW REFORM OF THE EGYPTIAN ECONOMY CAN BE CARRIED OUT WITHIN AN ACCEPTABLE POLITICAL CONTEXT.

(6) SEEK TO PROMOTE BETTER PUBLIC UNDERSTANDING OF THE BENEFITS BEING DERIVED BY EGYPT FROM THE US RELATIONSHIP, PARTICULARLY THROUGH USIS PROGRAMS.

(7) CONTINUE TO SUPPORT PROJECTS WHICH ENHANCE EGYPT'S TECHNOLOGICAL CAPABILITY.

(C) MILITARY PROGRAMS. ISSUES AND DISCUSSION.  
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THE SADAT REGIME WILL REMAIN IN POWER ONLY AS LONG AS IT HAS THE CONFIDENCE OF THE EGYPTIAN MILITARY. THIS CONFIDENCE IS UNDERGOING SOME STRAINS AS A RESULT OF (1) LACK OF MOVEMENT ON THE PEACE FRONT SINCE SINAI II; (2) DEGRADATION OF THE CAPABILITY OF EGYPTIAN MILITARY FORCES VIS-A-VIS ISRAEL ((ASTERISK)) (SEE FOOTNOTE), AND (3) A DETERIORATING ECONOMIC SITUATION DRAMATIZED BY PRICE RISES AND THE JANUARY 18-19 FOOD RIOTS. THE PARAMOUNT ROLE OF THE ARMY WAS DEMONSTRATED AT THAT TIME WHEN IT WAS CALLED UPON TO RESTORE PUBLIC ORDER FOR THE FIRST TIME SINCE THE OVERTHROW OF THE MONARCHY 25 YEARS AGO.

((ASTERISK)) FOOTNOTE. (THE PERCEIVED MILITARY INFERIORITY VIS-A-VIS ISRAEL IS NOT ONLY A DOMESTIC POLITICAL PROBLEM, BUT IN THE EGYPTIAN VIEW--AN OBSTACLE TO DURABLE PEACE. THEY BELIEVE THAT A DURABLE PEACE CAN ONLY BE ACHIEVED IF THERE IS A ROUGH BALANCE OF MILITARY POWER BETWEEN ISRAEL AND THE ARABS. THEY ARE ALSO CONVINCED THAT ISRAEL WILL HAVE NO INCENTIVE TO NEGOTIATE SERIOUSLY AS LONG AS IT ENJOYS OVERWHELMING MILITARY SUPERIORITY.)  
END FOOTNOTE.

FURTHERMORE SOVIET COVERT TIES TO THE EGYPTIAN OFFICER CORPS, DEVELOPED OVER 20 YEARS, ARE PROBABLY GREATER THAN WITH OTHER EGYPTIAN INSTITUTIONS. ADDITIONALLY, WITH 80 PERCENT OF THE EGYPTIAN MILITARY INVENTORY CONSISTING OF SOVIET EQUIPMENT AND THE SLOW PACE OF THE EGYPTIAN ARMS DIVERSIFICATION PROGRAM, THERE IS A RECOGNITION ON THE PART OF MILITARY OFFICERS OF EGYPT'S DEPENDENCE ON THE USSR FOR SPARE PARTS AND REPLACEMENT WEAPONS. FOR ALL OF THESE REASONS EGYPT'S LEADERS ARE CONCERNED. FOREIGN MINISTER FAHMY TOLD SECRETARY VANCE IN FEBRUARY 1977 THAT THE CONTINUING SUPPORT OF THE MILITARY "IS DIRECTLY LINKED TO EGYPT'S POLITICAL AND ECONOMIC STABILITY AND THE PEACE SETTLEMENT." WHILE FAHMY'S REMARKS WERE OF COURSE PARTLY DESIGNED TO OBTAIN AUTHORIZATION FOR US ARMS SALES, I BELIEVE THEY ACCURATELY REFLECT HIS AND SADAT'S PREOCCUPATION WITH THE ATTITUDES OF THE MILITARY. THE FOLLOWING COURSES OF ACTION ARE PROPOSED TO STRENGTHEN THE MILITARY'S SUPPORT FOR SADAT:  
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(1) AUTHORIZE THE SALE OF US MILITARY EQUIPMENT AND SUPPLIES OF WHAT GOE DESCRIBE AS "DEFENSIVE" TYPE WEAPONS AS SOON AS POSSIBLE AND IN QUANTITIES AS LARGE AS THE MOOD OF THE CONGRESS WILL PERMIT. SADAT WILL PROBABLY BE ASKING SOON FOR F-5ES, MORE C-130S, APCS, AND COMMUNICATIONS EQUIPMENT, WHICH WILL HAVE DOMESTIC REPERCUSSION IN THE US, AND WE SHOULD ALSO CONSIDER THE POSSIBILITY OF PROVIDING "NON-MILITARY" MATERIALS SUCH AS: TRUCKS, HOSPITAL EQUIPMENT, TENTS, CLASSROOM EQUIPMENT (FILM, CLOSED-CIRCUIT TV, ETC.).

(2) ASSIST THE GOE IN FINDING ALTERNATIVE NON-COMMUNIST SOURCES FOR ITS MILITARY REQUIREMENTS WHICH US IS UNABLE TO MEET.

(3) CONTINUE TO MAKE SELECTED US MILITARY TRAINING COURSES AVAILABLE TO EGYPTIAN OFFICERS IN ALL AREAS.

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## 2. KEY MULTILATERAL OBJECTIVES.

(A) THE USSR. A PRINCIPAL US MULTILATERAL OBJECTIVE IS TO MINIMIZE SOVIET INFLUENCE IN EGYPT AND THE AREA. SADAT HAS ALREADY ELIMINATED THE SOVIET MILITARY PRESENCE FROM EGYPT, ABROGATED THE SOVIET-EGYPTIAN FRIENDSHIP TREATY AND HELPED DISCREDIT THE SOVIET IMAGE IN THE ARAB WORLD. IN CONCERT WITH SAUDI ARABIA, IT IS NOW TURNING ITS ANTI-SOVIET ATTENTION TO AFRICA AS WELL. HOWEVER, AS RESULT OF ITS PREDOMINANT ROLE IN THE MILITARY OVER THE PAST 15 YEARS, THE USSR CONTINUES TO PUT SOME RESTRAINTS ON EGYPT. SADAT IS CONCERNED ABOUT

COMMUNIST INFILTRATION OF HIS OWN MILITARY, ABOUT THE GROWING SOVIET PRESENCE IN LIBYA, AND ITS RECENT ACTIVITIES IN ETHIOPIA. HE TENDS TO VIEW ALL OF THESE ACTIVITIES AS DIRECTED AT OVERTHROWING HIM--IN MY VIEW, WITH CONSIDERABLE JUSTIFICATION. IT IS CLEARLY IN OUR INTERESTS TO BENEFIT FROM SADAT'S ANTI-SOVIET PHOBIA TO REDUCE FURTHER SOVIET INFLUENCE THROUGHOUT THE AREA. THE FOLLOWING PROPOSED COURSES OF ACTION ARE RECOMMENDED:

(1) REDUCE THE DEPENDENCE OF ALL BRANCHES OF THE EGYPTIAN MILITARY UPON SOVIET MILITARY EQUIPMENT BY PERMITTING  
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US SALES AND ENCOURAGING ALTERNATE SUPPLIERS IN THE WEST (SEE ABOVE).

(2) EXPAND THE EMBASSY CAPABILITY TO MONITOR THE EGYPTIAN LABOR MOVEMENT AND EXPAND US AND WESTERN CONTACT WITH THE LABOR MOVEMENT THROUGH TRAINING PROGRAMS, LEADER GRANTS AND VISITS TO US. TO BE SUCCESSFUL THIS WILL ALSO REQUIRE A MORE POSITIVE AFL/CIO ATTITUDE TOWARDS WORKING WITH EGYPTIAN LABOR.

(3) DEVELOP AND ENCOURAGE PRO-WESTERN TENDENCIES, PARTICULARLY AMONG THE ARMED FORCES, UNIVERSITY FACULTIES AND STUDENTS BY:

(I) CONTINUED DEVELOPMENT OF BROAD GENERAL AND PROFESSIONAL RELATIONSHIPS WITH KEY MEMBERS OF THE ARMED FORCES AND ENCOURAGE VISITS OF SELECTED OFFICERS TO US AND TO DEPLOYED US MILITARY UNITS;

(II) EXPAND USIS PROGRAMS DIRECTED AT UNIVERSITIES;

(III) INTRODUCE, PROMOTE AND SUPPORT THE TEACHING AND USE OF ENGLISH IN KEY INSTITUTIONS;

(IV) OBTAIN AUTHORITY FOR EXPANDED EXCHANGE OF CLASSIFIED INFORMATION AND INTELLIGENCE, INCLUDING SELECTED COVERAGE OF MILITARY MATTERS, SOVIET PENETRATION AND SUBVERSION EFFORTS IN THE MIDDLE EAST AND AFRICA, INFORMATION ON INTERNATIONAL TERRORISM AND SOVIET NAVAL MOVEMENTS.

(B) COOPERATION IN MULTILATERAL DIPLOMACY. A SECOND KEY MULTILATERAL OBJECTIVE IS TO OBTAIN EGYPTIAN SUPPORT FOR POLICIES COMPATIBLE WITH US FOREIGN POLICY IN INTERNATIONAL FORA. SADAT'S ANTI-SOVIET POSITION, EGYPT'S POLITICALLY PREDOMINANT POSITION IN ARAB WORLD, AND SADAT'S POLICIES OF ECONOMIC AND POLITICAL LIBERALIZATION MAKE EGYPT A NATURAL CHOICE FOR THE US IN PURSUIT OF OUR MULTILATERAL OBJECTIVES. SADAT HAS COMMITTED  
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HIS REGIME TO THE RULE OF LAW AND THE GUARANTEE OF HUMAN RIGHTS. WHILE EGYPT IS STILL NOT A WESTERN DEMOCRACY, IN COMPARISON TO THE POLICE STATE ABUSES OF THE LATE NASSER ERA, SADAT'S EGYPT IS WORTHY OF SUPPORT. EGYPTIANS IN GENERAL ARE SUPPORTIVE OF US HUMAN RIGHTS POLICIES, BUT OFFICIALS HAVE ONE MAJOR PROBLEM THAT MAY LIMIT COOPERATION, I.E. OPPOSITION TO FREE EMIGRATION OF PEOPLES, PARTICULARLY JEWS FROM SOVIET UNION TO ISRAEL IN THE ABSENCE OF AN ARAB-ISRAELI SETTLEMENT. AS ONE OF THE POORER MEMBERS OF THE THIRD WORLD THERE WILL BE MANY DIFFERENCES ON NORTH-SOUTH ECONOMIC ISSUES. NEVERTHELESS, AS OUR RELATIONSHIP HAS GROWN CLOSER, GOE HAS SHOWN INCREASING DESIRE TO CONSULT ON UNGA MATTERS, LAW OF THE SEA, AND OTHER ISSUES. COURSES OF ACTION:

(1) CONSULT CLOSELY AND TO EXTENT FEASIBLE TAKE EGYPTIANS INTO OUR CONFIDENCE INTERMS OF STRATEGY AND PURPOSE ON MAJOR MULTILATERAL ISSUES;

(2) BE HIGHLY SELECTIVE ON ISSUES ON WHICH WE PRESS FOR GOE SUPPORT AND PROVIDE TIMELY BACKGROUND INFORMATION TO AVOID LAST MINUTE DEMARCHES.

(3) EXPAND USIS INFORMATIONAL EFFORT ON MULTILATERAL ISSUES.

D. OTHER OBJECTIVES.

THE ABOVE DISCUSSION DEALS ONLY WITH KEY BILATERAL AND MULTILATERAL ISSUES AND OBJECTIVES DUE TO LIMITATIONS OF SPACE. NEVERTHELESS, TWO ADDITIONAL OBJECTIVES, THE SUCCESSFUL PURSUIT OF WHICH WILL CONTRIBUTE IN A SIGNIFICANT WAY TO THE ACHIEVEMENT OF OUR PRINCIPAL OBJECTIVES ARE (1) TO ENCOURAGE US PARTICIPATION IN THE GROWTH OF THE ECONOMY THROUGH INVESTMENT AND EXPANDED TRAGE; AND (2) TO INCREASE UNDERSTANDING BETWEEN THE PEOPLES OF THE US AND EGYPT AS AN ENDURING BASIS FOR A CLOSE RELATIONSHIP. THE OPPORTUNITIES TO PURSUE THESE OBJECTIVES SUC-  
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CESSFULLY WILL BE LARGELY DEPENDENT ON THE ACCOMPLISHMENT OF OUR PRINCIPAL OBJECTIVS OF PEACE AND STABILITY. CONTINUED USG SUPPORT OF AUC WILL ALSO FURTHER INCREASE RAPID PLANNING ON THE PART OF EGYPTIAN YOUTH OF US PURPOSES.  
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## Message Attributes

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**Review Markings:**  
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